

**CALENDAR ITEM
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**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE,
SNODGRASS SLOUGH,
SACAMENTO COUNTY**

APPLICANT:

Sunset Exploration, Inc.
Attn.: Mr. Robert E. Nunn
10500 Brentwood Blvd.
Brentwood, CA 94513

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease of approximately 30.3 acres in the bed of Snodgrass Slough, Sacramento County, California.

BACKGROUND:

Sunset Exploration, Inc., has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on approximately 30.3 acres in the bed of Snodgrass Slough, Sacramento County (Exhibit A, attached hereto). Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources that may underlie the State land can be developed and protected pursuant to the California State Lands Commission's negotiated subsurface (no surface use) Oil and Gas Lease. This would permit Commission-approved directional drilling from a county-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

Public Resources Code section 6815(a) authorizes the Commission to negotiate and enter into oil and gas leases on State lands if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the State lands; the Commission determines the State lands to be unsuitable for competitive bidding because of such factors as their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available

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or obtainable; the State owns a fractional mineral interest in the lands; or the Commission determines the lease to be in the best interests of the State.

Because the Applicant controls, by lease or other agreement, all of the private property adjacent to the State land described in Exhibit A, and because the Applicant has county (CEQA Lead Agency) approval to drill a well near the State land, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface (no surface use) Oil and Gas Lease with the Applicant will protect oil and gas resources that may underlie the State land.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA under the general rule that the CEQA applies only to projects which have the potential for causing a significant effect on the environment. The staff believes, based on the information available to it, that there is no possibility that this project may have a significant effect on the environment.

Authority: Title 14, California Code of Regulations, section 15061 (b) (3).

2. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code Sections 6370, et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.
3. The lease will have a primary term of five years. However, if all or part of the leased lands are included in a Commission-approved pooled area or unit, then drilling operations on and production from lands pooled or unitized with the leased lands shall be deemed to be drilling operations on and production from the leased lands that are included in the Commission-approved pooled area or unit.
4. Annual rental of \$30 per acre (\$909 for approximately 30.3 acres).
5. Royalty of 20 percent on gas and oil.

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6. Performance bond or other security in the sum of \$5, 000.

PERMIT STREAMLINING ACT DEADLINE:

November 18, 2002

EXHIBITS:

- A. Location Map
- B. Land Description

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THERE IS NO POSSIBILITY THAT THE ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 (b) (3).
2. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.
3. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH SUNSET EXPLORATION, INC. THE LEASE WILL CONTAIN THE STATE LAND DEPICTED IN EXHIBITA AND DESCRIBED IN EXHIBIT B, ATTACHED HERETO, (APPROXIMATELY 30.3 ACRES), A PRIMARY TERM OF FIVE YEARS, ANNUAL RENTAL OF \$30 PER ACRE (\$909 FOR APPROXIMATELY 30.3 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$5,000.

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AUTHORIZATION

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO
EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE
COMMISSION'S ACTION.